

## Message Text

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ACTION EB-11

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P R 161100Z MAR 74

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 6410

INFO AMCONSUL DHAHRAN

AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: ENRG, ETRD, SA

SUBJECT: JOINT STUDY ON SPECIAL TRADE  
AND INVESTMENT OPPORTUNITIES

REF STATE 45917

BEGIN SUMMARY: SAUDI ARABIA IS UNIQUE IN ITS OPPORTUNITIES FOR BOTH SALES OF AMERICAN EQUIPMENT/ SERVICES AND IN REVERSE FLOW OF INVESTMENTS. ESTIMATED AMOUNT DURING NEXT FIVE YEARS AT OUR USUAL RATE OF MARKET SHARE WOULD BE: FIVE BILLION DOLLARS IN DIRECT SALES AND SERVICES. REVERSE FLOW THROUGH AMERICAN MULTINATIONALS AND DIRECTLY TO U.S. 35 BILLION. U.S. FIRMS ARE NOT AS RESPONSIVE AS THEY SHOULD BE TO THIS CASH MARKET. END SUMMARY.

1. SPECIAL JOINT STUDY BY COMMERCE AND STATE COULD FOCUS ON SAUDI ARABIA AS UNIQUE TRADE AND REVERSE INVESTMENT COUNTRY. EARNINGS OF THE KINGDOM DURING COMING FIVE YEARS WILL LIKELY EXCEED 100 BILLION DOLLARS, AND FIVE-YEAR PLANNERS ARE TALKING OPTIMISTICALLY ABOUT  
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SPENDING 60 BILLION OF THAT IN THE COUNTRY. THIS IS

FRANKLY FAR BEYOND SPENDING CAPABILITIES AND ABSORPTIVE CAPACITY OF ECONOMY. NEVERTHELESS, IMPORTS INTO SAUDI ARABIA FOR GOODS AND SERVICES WILL EXCEED THREE BILLION DOLLARS THIS YEAR AND WILL LIKELY AVERAGE FIVE BILLION PER YEAR DURING THE FIVE-YEAR PLAN. THE U.S. SHOULD BE ABLE TO APPROACH ONE-THIRD SHARE IN THIS MARKET IF AMERICAN FIRMS CAN BE RELIED ON TO RESPOND TO SAUDI NEEDS.

2. THEIR RECENT RECORD HAS NOT BEEN GOOD. WE ARE DISTURBED BY WELL-FOUNDED REPORTS OF UNRESPONSIVENESS THAT SUGGEST AMERICAN COMPANIES SIMPLY TOO BUSY TO PAY ATTENTION TO NEEDS OF ANSWERING MAIL AND ATTEMPTING TO BID COMPETITIVELY. IN PARTICULAR, DISPARITY IN DELIVERY SCHEDULES OFTEN PROMPTS MERCHANTS TO BUY OUR COMPETITORS' PRODUCTS EVEN WHEN, BECAUSE OF PRICE AND GOOD REPUTATION OF U.S. GOODS, MERCHANTS WOULD PREFER TO BUY AMERICAN. IF COMMERCE/STATE STUDY COULD FOCUS ON THIS PROBLEM AND ATTEMPT TO GIVE PUBLICITY TO NEED FOR AMERICAN FIRMS TO RESPOND TO THIS CASH AND CARRY MARKET, IT WILL BE WORTH ANY EFFORT PUT INTO IT. EVEN BETTER WOULD BE A SPECIAL UNIT ESTABLISHED TO DEAL WITH OPPORTUNITIES AND FOLLOW UP ON TRADITIONAL SUPPLIERS WHO MAY HAVE LOST INTEREST IN MARKET FOR ONE REASON OR ANOTHER. WE RECOGNIZE SAUDI ARABIA IS NOT THE EASIEST PLACE TO DO BUSINESS, BUT IT IS A HIGHLY PROFITABLE MARKET IF SALESMANSHIP OF A HIGH ORDER AND, AFTER SALES, SERVICING OF REQUIREMENTS IS MET. HAVING SAID THAT, WE SEE NO REAL REASON WHY OUR BILLION-DOLLAR ANNUAL RATE OF SALES GOAL WILL NOT BE REACHED WITHIN EIGHTEEN MONTHS TO TWO YEARS AND CLIMB BEYOND THAT BEFORE THE END OF THE FIVE-YEAR PERIOD.

3. THE ARMY OF BANKERS AND INVESTMENT FIRMS REPRESENTATIVES WHO HAVE STORMED THE KINGDOM IN THE PAST YEAR WILL CONTINUE, BUT THE TOTAL INVESTABLE INCOME OF SAUDI ARABIA DURING THE NEXT FIVE YEARS COULD REACH 75 BILLION DOLLARS. CLOSE TO HALF OF THAT AMOUNT COULD BE RECYCLED INTO THE UNITED STATES IN LIMITED OFFICIAL USE

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DOWNSTREAM PETROLEUM, INDUSTRIAL AND REAL ESTATE, AND BONDS AND PORTFOLIO INVESTMENTS DURING THIS PERIOD. WHILE MUCH OF THIS FLOW WILL BE ACCOMPLISHED THROUGH COMMERCIAL CHANNELS, TO MAINTAIN OUR SHARE, BOTH SPECIAL INCENTIVES AND SPECIAL EFFORTS, SOME OF THEM ORGANIZED WITH USG ASSISTANCE, WILL BE NECESSARY. UNKNOWN AMOUNT OF U.S. TREASURY BONDS HAS REPORTEDLY RECENTLY BEEN PURCHASED BY SAUDI ARABIA AS A FIRST TRANCHE OF

THEIR INTENTIONS TO BOTH BUY AND INVEST IN AMERICA.  
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